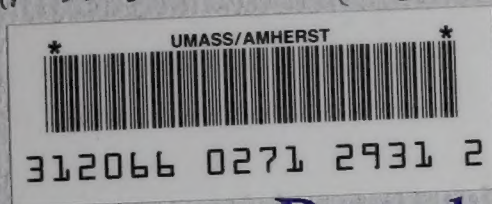


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Board of Regents of Higher Education

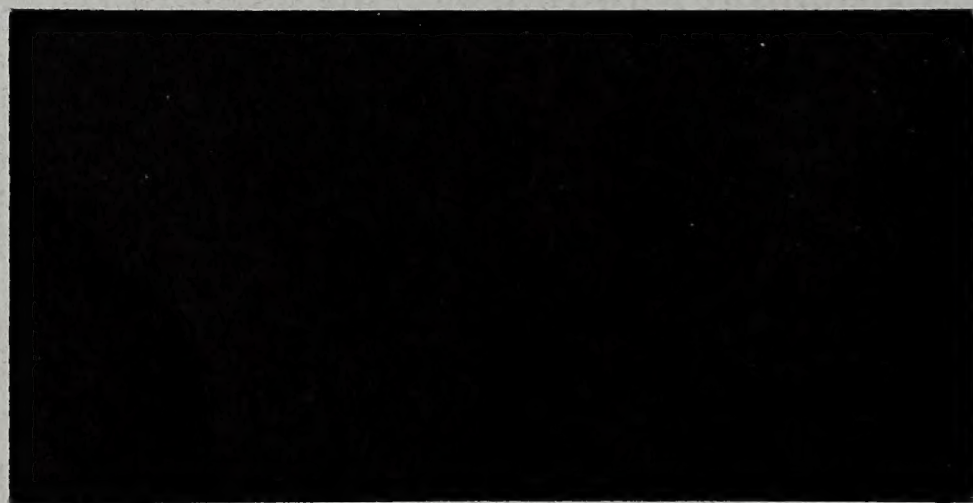


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STANDARDS FOR THE EXPENDITURES of TRUST FUNDS



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Massachusetts Board of Regents
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**Standards for the Expenditure of
Trust Funds**

May 2, 1989

Report of the Blue Ribbon Commission

Thomas W. Jones - Senior Vice President and Treasurer,
John Hancock Insurance Company

Nannerl Keohane - President, Wellesley College

William R. Thurston - Chairman, GenRad Inc.

Background and Purpose of the Standards

The term trust funds as used in public higher education refers to non-appropriated funds held by the public institutions of higher education.

During the past several years, considerable concern has been voiced about alleged misuse of trust funds at some Massachusetts state colleges and universities. These alleged abuses of trust funds have been reported widely in the media, raising questions about the adequacy of existing fiduciary controls and the personal ethics and judgments of the individuals involved. In addition, repeated patterns of perceived abuse at a number of institutions undermine public confidence in all state colleges and universities, and jeopardize their educational effectiveness.

In reviewing the adequacy of existing trust fund standards and fiduciary controls in Massachusetts, Coopers & Lybrand (C&L) reviewed guidelines from a number of institutions and authorities in the state including 10 community colleges, 9 state colleges, 3 state universities, Massachusetts Port Authority, and the MBTA. C&L also contacted higher education officials in 10 other states to collect comparative information on trust fund management. It quickly became clear that the other states reviewed lack adequately explicit standards and fiduciary controls for trust funds and that this is an area of concern in many state systems of higher education.

Role of Trust Funds

In Massachusetts, trust funds play an important role in financing the educational needs of all students in the public higher education system. The statutory authority for trust funds in Massachusetts is Massachusetts General Law, Chapter 15A, Sections 5(1) and 10(e), and various other statutes for public institutions of higher education. These statutes allow the Board of Regents and institutional Boards of Trustees to create financial accounts to fund and account for certain campus projects, programs and activities. The statutes stipulate that all income received be held in trust and be expended for the

purposes for which the trust funds were established. Trust funds are used to complement state appropriations in order to ensure sufficient funding of an institution's total programmatic needs. Without trust funds, the Commonwealth's appropriation would have to be increased or some services could not be undertaken. Trust funds can also provide a vehicle to manage supplemental programs such as daycare to better meet the needs of the student body.

Typically, trust funds are used in connection with a variety of campus activities such as auxiliary enterprises (e.g., student housing, bookstores, food service, vending machines), student activities, financial aid, medical services, public services and research. In theory, these funds are self-sustaining. Revenues generated through each activity (e.g., dormitory fees, vending machine proceeds, student fees, sponsored research revenues) are used to fund the costs of the associated program or activity.

State colleges and universities have two primary sources of income: state appropriations and locally (campus) generated revenues or trust funds.

- The expenditure of state appropriated funds is governed by detailed state regulations which control expenditures for all state agencies. Statutory authority for enforcing state regulations rests with several entities including the State Auditor, the State Comptroller and the Board of Regents of Higher Education.
- Trust funds expenditures, however, are regulated differently. Although technically "public" funds, trust funds are not "appropriated" funds, and therefore, are not subject to the same spending rules and regulations as appropriated funds. In many cases, other, external regulations govern expenditures of campus trust funds. For example, sponsored research trust funds would be subject to Federal and state regulations concerning the expenditure of research monies. Student housing funds may be governed by regulations pertaining to debt service payments associated with dormitory construction. Where external, third-party regulations do not exist, responsibility for regulating and controlling the expenditure of campus trust funds rests with local Boards of Trustees. The

Board of Regents does not have statutory authority over institutional trust funds.

Because trust fund regulations are locally developed and controlled, they vary from institution to institution and there is a wide spectrum of institutional policies, procedures and regulations which apply. They range from extremely limited regulations to conformity with all state regulations pertaining to appropriated funds. In the vast majority of cases, the guidelines can be considered general in nature, leaving much to the discretion of institutional boards and administrators. Where specific spending rules do exist, they can be contradictory. An appropriate expenditure at one institution may be inappropriate at the next. An "abuse" at one institution is reasonable at the next. Therein lies part of the problem: *uniform, statewide standards for the expenditure of trust funds do not exist.*

Perceptions of Abuse

The inconsistency in local regulations gives rise to numerous public perceptions of abuse. A large amount of newsprint has been devoted to political contributions, expensive car leases, lawsuit settlements, spouse and trustee travel, guest lodging, country club dues, house cleaning, parking ticket payments, entertainment and meals, all paid from trust funds at state institutions. In the vast majority of cases, these expenditures are not illegal. However, in virtually all cases, these expenditures raise questions about abuse and tarnish the image of public higher education in the Commonwealth. Of particular concern is the perception that institutional presidents and others may be *personally* benefiting from these expenditures. Trust funds may exist to support the goals and mission of the institution, but to some individuals and groups they appear to be providing excessive perquisites to senior institutional officials. As one newspaper editorial put it: the trust fund appears to be a presidential pool of "fun money."

Purpose of the Standards

A generally shared objective of the Commonwealth of Massachusetts is to improve the quality and effectiveness of its public higher education system and to raise it to a position of leadership in the United States. It is important that the development, utilization and management of trust funds be conducted in a manner that meets with general approval. Clearly, expenditures from trust funds should be consistent with this overall, long-range goal.

Therefore, these standards for the expenditure of trust funds are intended:

1. To provide some guidance and suggestions on selected expenditures made in the interest of promoting the mission of the institution.
2. To outline recommended standards for expenditures which have the appearance of providing personal benefits to college officials and friends, or of being lavish or extravagant in nature.

It is impossible to discuss every conceivable type of expenditure which might be made from these funds. It is our intent through these standards to provide greater clarity and more uniformity in the determination of appropriate and inappropriate expenditure of these funds.

These standards should be considered *minimum* standards. Local Boards of Trustees must develop institutional guidelines and standards which may be more but not less restrictive.

The standards in this report are designed to apply primarily to those trust funds which permit broad, discretionary expenditures. However, they shall also be applied to expenditures from all trust funds established by Boards of Trustees which are not governed by external regulations or restrictions unless such application would contradict the specific purpose of the trust fund.

Underlying Principles

A number of important principles underlie these standards:

1. **Institutional autonomy and flexibility as well as local decision-making are important and should be encouraged.** These standards should not be construed as an attempt to usurp local authority or to centralize decision-making. Each institution must have the flexibility to fulfill its distinctive mission within the public higher education system.
2. **No set of general or detailed guidelines can be a substitute for personal ethics and sound judgment.** Expenditures of trust funds should be made with the assumption that those decisions and choices will become public knowledge.
3. **Local Boards of Trustees have the responsibility to issue clear guidelines for the expenditure of trust funds and to establish the mechanisms and structures to actively review these expenditures.** Accountability is a critical component of local autonomy. Individuals and institutions should be held accountable for their choices and decisions, including the expenditure of trust funds.
4. **State colleges and universities are members of and participants in the larger communities they serve.** As such, they must interact with community groups and civic associations and it can be appropriate for them to make modest and limited expenditures in support of these entities.
5. **State institutions, like private institutions, must engage in activities which promote employee morale, generate philanthropic support and enhance the well-being of the institution.** Accordingly, reasonable and appropriate expenditures to support such activities can and should be made.
6. **Trust funds should not be spent in a manner which gives the impression of lavishness or extravagance.** Travel, entertainment and other expenditures should be made in moderation and good taste.

The following pages outline *minimum* standards for the expenditure of trust funds.

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I. General Comments

- (1) Trust funds exist for the purpose of promoting the development of the college or university by providing funds which can be used for conferences, information services, student financial aid, entertainment of visitors and other activities which promote the well-being of the institution.*
- (2) Responsibility for the specification of trust fund guidelines and regulations rests with the institutional Board of Trustees. These guidelines shall include policies and procedures concerning trust fund revenue sources, appropriate and inappropriate expenditures, bank accounts, spending approval levels and required documentation.*
- (3) Responsibility for trust administration rests with the President or Chancellor of the Institution. Records shall be maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts.*
- (4) All trust fund activities shall be subject to regular audit and inspection by the State Auditor's department and the Board of Regents' Compliance Unit.*

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(5) Whenever an expenditure would personally benefit or might be seen to personally benefit an individual, that person is prohibited from approving such an expenditure, regardless of the dollar amount. In all such circumstances, an institutional official at a higher organizational level must approve the expenditure in advance. In the case of a president, the trustees may provide prior approval of such expenditures via the budget process. If such an expenditure is not included in the approved budget, it requires prior approval by a designated trustee or group of trustees.

(6) Clear goals and objectives for the trust fund should be established by the institution and, where feasible, an annual budget should be developed, reviewed by the President and submitted to the Board of Trustees for approval before the beginning of each fiscal year. Such budgets should include sufficient detail to permit the identification of major expenditures. The president shall provide a detailed accounting of trust fund expenditures to the Board of Trustees on a quarterly basis and to the Board of Regents on an annual basis. Additional reports may be requested at the discretion of either Board.

This accounting should conform to the requirements of the Board of Trustees as expressed in their guidelines. At a minimum, it should include:

- Quarterly reporting of all expenditures as well as certification by the President or Chancellor that all records were maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts.
- Relationship of the expenditure to institutional mission should be clearly stated or evident.

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This quarterly report should be reviewed by an appropriate sub-committee of the Board and approved by the full Board of Trustees. In addition, the Board of Trustees should report all violations of trust fund expenditure standards as well as the follow-up action taken to address each violation to the Board of Regents. This report should be made on a quarterly basis if violations occur. If no violations occur during the year, a year-end report is still required as confirmation of that fact.

- (7) The president or his or her designee should have discretion over trust fund expenditures up to a ceiling of \$2,000 before prior approval of the Board of Trustees is required, except as noted in item 5.*
- (8) Individual expenditures of more than \$2,000 from trust funds require the prior approval of the Board of Trustees, the appropriate sub-committee or the Board's designee, unless that expenditure was included as part of the approved annual budget for the trust funds.*
- (9) In situations where dollar limits or caps have been placed on certain categories or expenditures, these caps are subject to periodic adjustments not to exceed general guidelines established by the Board of Regents.*

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II. Categories of Expenditure

(1) General Campus Projects

- A. Facilities renovations, repair, or decoration should be funded through the institution's appropriation from the Commonwealth. When such expenditures are to be made from trust funds, they must have the prior approval of the Board of Trustees except in an emergency, in which case the Board should be informed as soon as practicable. All such expenditures shall conform to the competitive bidding policies of the Commonwealth and to its associated procurement procedures.
- B. Contractor and consultant fees paid from trust funds should conform to state regulations pertaining to such activities and have the prior approval of the Board of Trustees.
- C. Publications, including President's Reports, newsletters, advertisements, magazines, invitations and others should avoid the appearance of extravagance.

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- D. Membership fees for individual civic, academic and/or professional organizations should be reviewed and approved by the Board of Trustees, if not previously approved by the Board as part of the trust fund's annual budget.
- E. Outright contributions to charitable organizations are prohibited. However, where attendance at a charitable dinner or event will further the public purpose of the institution, expenditures of \$200 per organization per annum (over and above the membership fees and charges) may be permitted, subject to review by the Board of Trustees.
- F. Contributions to individuals (or their associated committees) seeking elected, public office are *prohibited*.
- G. Contributions to political committees (PACs) or equivalent organizations are *prohibited*.

(2) *Travel and subsistence costs, associated with conferences, fact finding missions, professional organizations and institutional development.*

A. Employee Travel

When traveling to and from institutional business activities, actual expenditures for transportation, including bus, railroad, airline, subway, taxi and personal auto should be reimbursed to the extent that these expenditures exceed the normal daily cost of commuting to and from the institution. Where, practical, the least expensive mode of transportation should be selected.

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In particular, all individuals should fly coach class or at discount fares where available.

Reimbursement for personal automobile mileage may be reimbursed at the rate of \$.22 per mile, plus documented parking and tolls.

The circumstances of an out-of-town trip and the availability of public transportation may require the use of rental cars. Individuals should make every effort to take advantage of discount rates with car rental companies.

When traveling on institutional business, staff members should live and conduct business in a cost efficient manner which is both comfortable and safe.

Where appropriate and available, discount rates on hotel and motel stays should be taken advantage of. All charges, other than basic room charge and tax, such as meals, or phone calls should be separately identified on the expense report.

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Business meal (including food and beverage) expenses must be reasonable and appropriate under the circumstances.

Examples of reasonable expenses:

- **Meal expenditures which have a clear business purpose**
- **Meals while traveling out-of-town on institutional business**
- **Expenditures for the purpose of recruiting potential employees**
- **Meals incurred as part of attendance at conferences or meetings of professional organizations.**

Expense documentation should include:

- **Date, city, restaurant and description of meal (lunch, dinner, etc.)**
- **Name(s), company, affiliation(s) and business relationship(s) of person(s) in attendance**
- **Business purpose for incurring the expense**
- **Amount spent.**

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In addition, business meal expenses must be documented by a receipt. Any meal not accompanied by a receipt will be reimbursed at the Commonwealth's per diem rate for meals.

Expenditures of a personal nature, unreasonable or excessive expenses, and those not specifically related to the conduct of institutional business are not reimbursable. The following are indicative of the type of expenditures that should not be reimbursed:

- Excessive or extravagant costs (e.g., expensive wines, exclusive restaurants)
- Personal entertainment
- Travel insurance in excess of the amount automatically provided by the institution and the Commonwealth
- Fines for traffic or parking violations
- Insurance for a personally-owned car
- Articles stolen from a personal or rental car

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- Briefcases and luggage
 - Expenses incurred in connection with personal business
 - Any unexplained expenses.
- B. Non-Employee Travel**
- Trust funds expenditures to pay for spouse or personal guest travel are *not* allowed. If the spouse or guest is a participant on a conference panel or program, expense reimbursement should be sought from the sponsoring organization or personal funds should be used.
 - At the President's discretion, students may be allowed to incur travel expenses charged to the trust funds. Trustee travel must be approved by the Chairman of the Board of Trustees. In all cases, the activities and expenses must be clearly related to the mission of the institution.
 - For such individuals, expense documentation should conform to the documentation required for employee expenses. In addition, the listing of allowable expenses noted for employees also applies to the aforementioned individuals.

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(3) *Personal and Student Loans*

- Personal loans should not be granted to institutional staff or board members.
- In certain, rare circumstances, it may be permissible to provide salary advances to employees if the institution cannot meet payroll due to technical difficulties (e.g. computer failure, etc.). Such advances should be repaid promptly to the trust fund.
- In the case of students, loans from trust funds can only be made by the President and should be made *only* in exceptional circumstances and only after consultation and review with the institution's financial aid office. That office should make the determination of need and should be responsible for collecting the loan in accordance with institutional policies.

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(4) Employee and Student Recognition and Activities

- Within moderate limits set by the Board of Trustees, certain expenditures of trust funds to enhance employee and student morale or to recognize achievement, longevity, performance or retirement can be made. These circumstances include:
 - Institutional social functions
 - Employee and student recognition awards/dinners.

(5) Entertainment of institutional donors, alumni, friends, guests and visitors

- Such entertainment should be in moderation and good taste.
- It is appropriate for a college president to entertain guests in his or her home as part of official duties, but costs for such entertainment should be supported by a budgeted line item and/or specifically authorized by the Board of Trustees.

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- Sports, theater and other entertainment tickets cannot be purchased with trust funds unless the event is being held on campus and the expenditure benefits the mission of the institution or directly supports its instructional programs.
- Areas of expenditure can include:
 - Equipment and furniture rentals
 - Materials and supplies
 - Food and beverage
 - Entertainment
 - Travel and related expenses (in conformity with the travel guidelines noted above).

(6) Miscellaneous

- A. **Moving Expenses** – such expenses are appropriate for the President and selected officers of the institution. Attracting individuals of high quality can require moving them from other parts of the state or country. Moving expenses should not exceed the regional, average cost of moving between the two points, and must have the advance approval of the Board of Trustees. Competitive bids for moving costs should be sought in all cases.

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B. Motor Vehicle Expenses

- Purchase or lease of any motor vehicle with trust funds is subject to Board of Trustees approval.
- The lease or purchase of full-sized, mid-priced automobiles for the President's use may be appropriate and must be approved in advance by the Board of Trustees.
- If a more expensive vehicle is desired by the President, the difference between the stated limits and the actual cost should be paid with the President's personal funds.

C. Flowers, Gifts and Cards - In moderation, expenditures from trust funds for

flowers, gifts and cards may be made. Appropriate occasions include:

- Death of an employee, student, trustee or person of special importance to the institution, or immediate family of said persons
- Visit of special guests.

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D. Private Clubs -

- Private club initiation fees and membership dues are not an allowable expense.

III. Closing Comments

As noted previously, these proposed minimum standards for the expenditure of trust funds are not all-inclusive. It is impossible to outline every possible type of expenditure which might be made from these funds. However, when a trust fund expenditure decision must be made, it should be made in recognition of the public nature of these funds and in moderation and good taste.

